

Presentation to the Financial Liability Reform Committee

*Chris DeRose, Chief Executive Officer
Kim Rhead, Legislative Affairs & Public Policy Director*



About MERS

- We are a statewide nonprofit organization that has helped provide retirement plans for municipal employees for more than 65 years
 - We began with just 13 municipalities in 1946
 - Today we partner with over 800 Michigan municipalities and nearly 100,000 participants
- We are governed by a Retirement Board that is elected by our membership
 - 3 participating employers
 - 3 participating employees
 - 2 public members
 - 1 retiree member



38,000 +
Number of MERS participants
retired from or working for
county governments or road
commissions

90% +
Percentage of MERS 26,000+
retirees that remain in the state



23,000 +
Number of MERS participants
retired from or working for city
governments

\$18,000 +
Average pension payment



MERS
Municipal Employees' Retirement System



How We Help

- We provide one-stop access to shared professional retirement services
 - Plan Governance
 - Administration
 - Portfolio management
 - Investment options
 - Participant education
 - Customer service
 - Legal counsel
 - Actuarial services
 - Plan compliance, including tax qualification
- We offer a range of affordable, customizable plans which employers can choose from to fit their budget and manage their ongoing unfunded pension and retiree health care (OPEB) liabilities



Our Programs

Retirement Plans

Defined Benefit

**Defined
Contribution**

Hybrid

OPEB Solutions

**Health Care
Savings Program**

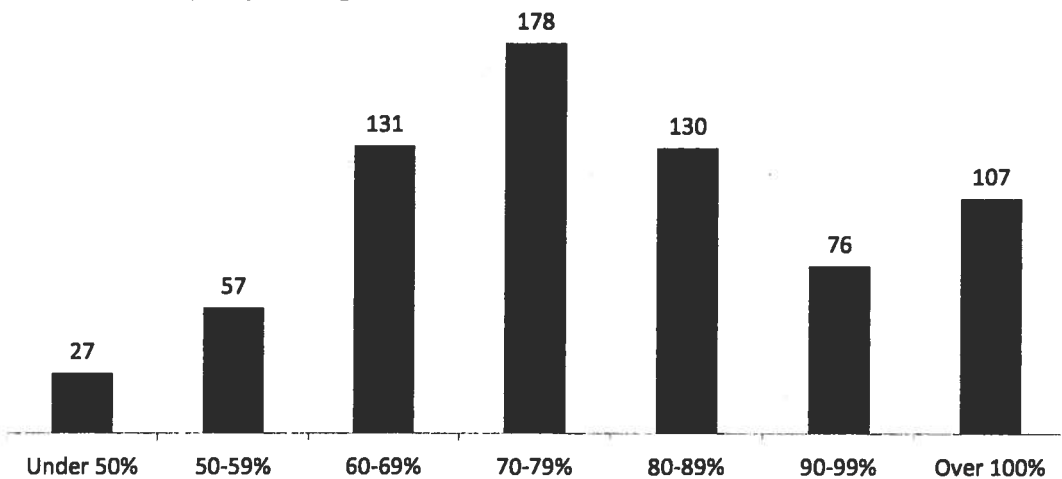
**Retiree Health
Funding Vehicle**

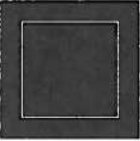
**Supplemental
Retirement**

457 Program


Distribution of Funded Percentage

- MERS is a multiple-employer plan
 - Assets of the participating employers are pooled for investment purposes only
 - Separate trusts are maintained for each individual employer
 - We do not borrow from one municipality's account to cover another municipality's obligation





Why Do Retirement Plans Have Unfunded Liability?

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- Many new defined benefit plans were not fully funded from the beginning
 - Adopting prior service credit for employees and did not require them to roll over assets
 - Improved benefits adopted, due to collective bargaining, and financed over-time
 - Early retirement windows
 - In addition, some municipalities are facing increased employer contributions due to:
 - A shrinking workforce
 - Actuarial Assumptions are not being met

Defined Benefit Case Studies

Underfunded Plan


- Joined MERS in 1992
 - Transferred from an external DC plan
 - Joined at 15% funded
- Added benefit improvements such as a cost-of-living adjustments
- A shrinking workforce
- Avg. pension \$34,000
- 41% funded today

Well Funded Plan

- Joined MERS in 2004
 - Transferred from an external DC plan
 - Joined at 100% funded
- Made no benefit improvements
- Avg. pension \$20,000
- 107% funded today

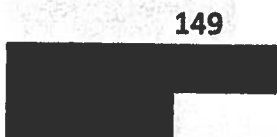





MERS Fiscal Best Practices

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- Require municipalities to be at least 50% funded when they join MERS
 - Require actuarial reports to illustrate the financial impacts of benefit improvements
 - Require municipalities be at least 100% funded or pay for the benefit upfront in order to make improvements
 - Aligned our plan rules with EVIP and legislation to better define compensation
 - Limits lump-sum payouts which avoids unexpected “spiking” of final compensation
 - Built flags into our reporting system that help inform employers on excess amounts of compensation that are being reported
 - Apply actuarial loads to groups that have demonstrated a history of unexpected final average compensation spikes




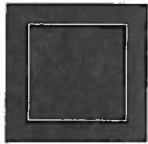
Cost-Reducing Strategies

Strategy	Description	Trend			Impact
		2012	2011	2010	
Cost Sharing	Employees contribute to help fund the overall cost of the plan	 149			<ul style="list-style-type: none">Reduces the employer cost, but does not affect total cost, or the plan's unfunded liability
Lower Benefit to New Hires	New hires are covered by a lower tier of either Defined Benefit or Hybrid benefits	 89			<ul style="list-style-type: none">Existing employees are not effectedReduces the liability for new hires
Bridged Benefits	Benefits are offered in parts to existing employees	 17			<ul style="list-style-type: none">Leaves earned benefits unchanged
	Multiplier is lowered on a going-forward basis				<ul style="list-style-type: none">Reduces the liability for new hires and existing employees



Hybrid

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- Combines the security of a modest defined benefit plan with the flexibility and investment choice of a defined contribution plan
 - Defined benefit portion is designed to provide stability by **not** allowing for benefit improvements

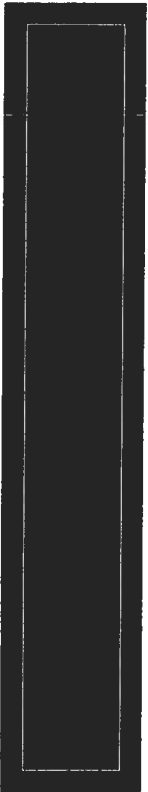


MERS Investments Practices

- MERS follows Michigan state law and prudent standards of diligence
- Our assets are invested in accordance with the Public Employee Retirement System Investment Act (PERSIA)

Investment Fees

- One of the greatest benefits provided to members of MERS is our ability to “pool” assets, for investment purposes only
- Pooling creates tremendous buying power and helps reduce the overall fees for our municipalities





Evolution of the MERS Defined Contribution Plan

1997

- MERS Defined Contribution Plan was established
- Outsourced to a third-party administrator

2008

- At the request of our membership MERS pooled investment options added to the investment menu

2011

- MERS brought the plan in-house
 - Saved members \$656,000 annually in fees
 - Created a strategic investment menu
 - Created a transparent fee structure
 - Modified loan provisions

Defined Contribution Trends

- To help our member municipalities ease the transition from a defined benefit plan to defined contribution for new hires, the MERS Retirement Board voted to:
 - Offer a choice in accelerated funding options
 - Lessen the funding requirement

**More than 40 groups have moved to
MERS Defined Contribution Plan since
January 1, 2011**

**15 more groups are exploring this change
since February 1, 2013**



“ MERS has a great reputation. It's known throughout the many communities as being responsible, a good citizen to its members and has always been there for its members.

I am MERS because I'm committed. ”


Debra Wilhelm, Charter Township of Northville



OPEB Case Studies



Why Do OPEB Plans Have Unfunded Liability?

- 
- Though these benefits have been offered many decades, the majority of local governments did not calculate the liabilities until required to do so by accounting standards beginning in 2007
 - Many plans have not been prefunded
 - Over time prefunding allows for investment earnings offset liabilities

City Reduces OPEB Liability

Overview

- A City with 1,800 employees offered full retiree health care benefits to vested employees
- OPEB liability totaled \$200 million
- Funds set aside were less than liability total

Decision

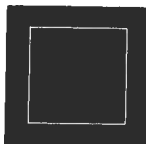
- Negotiated new program for retiree health care:
 - New hires receive health care savings account in lieu of retiree health care
 - Existing employees allowed option to convert to the new program, which is not a medical plan

Health Care Savings Program

- For new hires:
 - Employer contribution of \$1,800 per year, with a vesting schedule of 10 years
 - Mandatory Salary Reductions of 5% of salary
- For conversions, lump sum actuarially calculated using present value of benefit

Retiree Health Funding Vehicle

- Transferred existing funds to MERS funding vehicle to take advantage of our pooled investment funds
- The City continued to pre-fund OPEB liability



CMH Modifies Existing Plan to Reduce Future Costs

Overview

- A Community Mental Health with 300 employees offered full retiree health care benefits
- OPEB liability totaled \$74 million

Decision


- Modify existing benefit plan to reduce future costs to:
 - Protect credit rating
 - Improve long-term financial health

Health Care Saving Program

- New hires receive Health Care Savings account in lieu of retiree health care
 - Employer contribution of 5%
- Existing employees allowed option to convert
 - Employer jump-start of \$4,800 per year of service
 - Employer contributions of 5% of base pay moving forward

Retiree Health Funding Vehicle

- Began pre-funding OPEB liability



“ They always seem to be ahead of the game.
They always seem to be one step ahead. They
always seem to have a plan ...
I am MERS because I have a secure future. ”

*Akemi Gordon,
Eastern Upper Peninsula Transportation Authority*




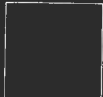
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Concluding Observations

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- MERS is in the business of partnering with our local governments by offering:
 - A complete range of products gives customers a more complete solution
 - Cost-effective fees
 - Innovative product development to meet emerging needs
 - Fiscally responsible plan provisions/legislation



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